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SUBJECT: TALKS ON SAKHALIN 2 JBIC LOAN NEARING CONCLUSION

Classified By: Amb. J. Thomas Schieffer. Reason: 1.4 (b,d)

¶1. (C) Summary: Discussions on a syndicated loan package for the second phase of the Sakhalin 2 natural gas project -- likely to exceed \$5 billion -- may conclude in the next 1-2 months if not sooner, according to press reports and GOJ officials. Company representatives, however, are cautious about revealing any of the content of the financing negotiations, led by the Japan Bank for International Cooperation. End summary.

¶2. (SBU) The Japan Bank for International Cooperation (JBIC) is negotiating with several major Japanese and foreign banks to arrange a syndicated loan to Sakhalin 2 gas project operator Sakhalin Energy, according to a JBIC official. Contacted June 3 to corroborate a Nikkei article reporting the ongoing talks, the official indicated JBIC's discussions with possible private financiers for the project were initiated at Sakhalin Energy's request.

¶3. (SBU) While acknowledging the existence of the discussions, however, the JBIC official would not confirm the figures mentioned in the Nikkei report (a total loan of \$5.3 billion with \$3.7 from JBIC and \$1.6 billion from private sources) and noted JBIC continues to study the financial prospects of the Sakhalin 2 project, including potential cash flow. The JBIC official would not reveal which private banks are in discussion with JBIC. (Note: The Nikkei piece identifies possible participants in the loan as Mitsubishi Tokyo UFJ, Mizuho Corporate Bank, Sumitomo Mitsui Bank, and the French bank BNP Paribas. End note.)

¶4. (SBU) An executive of Mitsui Corporation, one of the Japanese companies participating in Sakhalin 2 development, contacted June 3 was cautious about the future of the project. He stated the public guidance Mitsui had worked out with Sakhalin Energy was simply to note "Final negotiations on financing are in progress."

¶5. (C) The loan under discussion would finance the

second phase of construction at Sakhalin 2, including the pipeline and liquid natural gas (LNG) terminal, according to the Ministry of Economy, Trade, and Industry (METI). In a June 5 conversation, METI Petroleum and Natural Gas Division Deputy Director Takehiko Nagai indicated Sakhalin Energy had applied originally in 2006 for the \$5.3 billion loan cited in the Nikkei report. The JBIC contribution, he estimated, would be about \$3.7 billion with the remainder supplied by private banks. Nagai stressed that, despite strong GOJ involvement in the Sakhalin 2 project from the beginning, the government has stayed out of the discussion when the participating companies have worked out their shares of the enterprise. Acknowledging discussions are entering their final phase, he expected an agreement on the financing for the project within the next 1-2 months although not necessarily in the mid-June timeframe suggested in the Nikkei article.

SCHIEFFER